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Re: Proposal for Funding Higher Education, K-12, and other State
Services by Removing Exemptions in Tax Code

Dear 2020 Committee Members:

Based upon my experience in working with the Idaho tax structure since 1965, my experience on several Blue Ribbon committees regarding both education and taxation, and my involvement since 1990 as the lead counsel in the school funding lawsuit, I respectfully suggest that it is time we cease the nonsense of talking about "share of the pie" and provide the Legislature with a thoughtful approach to achieving an "adequately sized pie" through tax reform.

Discussions of the share of the pie are largely meaningless – there is no empirical data that the pie was either correctly sized or correctly divided at any base point in history.

Please consider the following historical perspective:

- ◆ The tax structure did not provide adequate revenue for education by 1931. Therefore Idaho implemented the Income Tax that year.
- ◆ By 1965, when I was a member of the Revenue and Taxation Committee of the House and helped carry the Sales Tax Bill, revenue was again inadequate and thus the Sales Tax was enacted primarily "for education".
- ◆ The Sales Tax in 1965 had **only 17 exemptions** which were appropriate and necessary to have a result of forming a **retail** sales tax as distinguished from the European model of a **value added** tax – that is, we exempted production and manufacturing.
- ◆ In 1965 Idaho's economy was primarily **resource based** – that is, driven by agriculture, timber, and mining.
- ◆ Despite the fact that today, 37 years later, Idaho has shifted to a **service based** economy, we have never amended the 1965 Sales Tax Act to reflect that reality.
- ◆ **Today, instead of 17 exemptions, there are 72**, with the result that the 5% sales tax brings in **\$800 Million**, while the exemptions, a few of which are

appropriate, total **\$955 Million**.

- ◆ The Income Tax now has exemptions of **\$183 Million**, of which **\$120.8 Million** are candidates for removal.
- ◆ A removal of many of the inappropriate exemptions will permit Idaho to **reduce** the Sales Tax from 5% to 3% while at the same time netting the State coffers **\$280 Million new tax dollars**.
- ◆ The tax can be reduced from 5% to 4% and still net the State general fund only by removing fewer exemptions.

CONCLUSIONS AND A PLAN OF ACTION

- ◆ It is a basic axiom of sound tax structure design policy, that all other things being equal, the broader the tax and the fewer the exemptions, the fairer the tax. It is also true that the higher the tax rate the greater its undesired impact on the economy.
- ◆ Increasing the Sales Tax rate will exacerbate its unfairness and at the same time result in businesses in the states of Washington and Oregon gaining competitive advantage over Idaho businesses. Increasing the Sales Tax rate will also encourage special interest groups to seek even more exemptions from the tax.
- ◆ Enclosed are some of the exhibits which were the foundation of the testimony presented by Dr. Richard Slaughter on behalf of the school districts which demonstrate the following:

Funding Sources for Education

By eliminating some of the inappropriate exemptions, Idaho can:

1. Reduce the Sales Tax from 5% to 3% (or from 5% to 4%).
2. Retain the Income Tax rate reductions enacted by the 2000 and 2001 legislatures.
3. Gain up to \$280 million (\$160 m. Sales, \$120 m. Income Tax) in new revenues to
 - a) Make \$55 million available for K-12 school facilities,
 - b) Reduce property taxes in districts with school construction needs,
 - c) Provide sufficient money to properly fund the operating budgets for public schools, universities, health services, and prisons, and
 - d) Provide additional funds to further reduce income tax rates or property taxes.

Robert C. Huntley